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SUBJECT: Angola: USAID-Central Bank Monetary Policy Workshop
Tackles Central Bank Role and Powers

REF: 06 Luanda 1261

¶1. (SBU) Summary: On January 11 to 13, USAID Angola and the Angolan National Bank sponsored a monetary policy workshop featuring local and international experts. The workshop provided a forum to openly and frankly discuss the next steps required to help Angola take full advantage of increasing oil revenues while avoiding problems such huge inflows had caused in other countries. In addition, the workshop allowed GRA officials to develop working relationships and exchange ideas with world financial experts, thus creating their own network for future consultations. The workshop, which the USG developed and funded, was much appreciated by the GRA. The workshop is a milestone in Angolan willingness to discuss the options and challenges of new monetary policy with the USG, and reinforces Embassy Luanda's belief that a U.S. Treasury Advisor would be welcomed and of great service to the GRA. End Summary.

The Resource Curse and Angola's Economy

¶2. (SBU) From January 11 to 13, 2007, international group of experts, whose travel was fully funded by the USG, met with approximately sixty Angolan mid- and high-level officials of the National Bank of Angola (BNA), Ministry of Finance, and the Office of the President. During intense discussions, BNA and GRA participants debated the limitations of the current GRA system and brainstormed on possible solutions to both manage the massive oil-generated inflows of foreign exchange and curb inflationary effects on the economy and exchange rate policy. The USG organized the event and sponsored panelists including speakers recently retired from the United States Treasury and the New York Federal Reserve Bank, as well as the former Governor of the Central Bank of Bolivia. Other panelists included representatives of the IMF, World Bank, and the central banks of Ghana and Uganda as well as academics.

Stabilization Fund v. Savings and Infrastructure Fund
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¶3. (SBU) BNA officials discussed the structure, management, pay-in, and pay-out of a stabilization fund. BNA Deputy Governor Rui Miguens, for example, asked why Angola should lend its money to developed countries, as would occur with a stabilization fund, rather than investing it immediately within the country. Panelist Ragnar Torvik, of the Norwegian University of Science and Technology, granted that Angola's reconstruction needs justify spending most of the oil money for several years before putting an increasing share of oil revenue into savings. Other panelists contended that public investment projects must yield at least a 20 percent rate of return to be viable, and that the fund should smooth out government spending. Panelists and Angolan interlocutors agreed that a fund could be a powerful tool combining the functions of saving and investment and thereby combating Dutch Disease.

Professor Torvik noted that Norway's fund, which has grown to equal the country's GDP, is designed to reach four times this value over a period of years, through lending to creditworthy entities, many of which are developed countries. Norway's fund has serviced the national debt and will fund the national pension system, he continued.

Setting Monetary Policy

¶4. (SBU) Citing the inherent restrictions on BNA operations, one BNA official noted that the bank must hold 20 percent of its own funds in reserve. Another BNA official conceded that the BNA's sterilization of the effects of huge foreign currency inflows, undertaken under central government instruction, limits its freedom of action. Rui Miguens added that high interest rates on BNA bonds kill the non-oil domestic economy. Former Governor of the Central Bank of Bolivia Juan Antonio Morales, countered that the BNA will be on its way to a solution once it puts developing the private financial sector ahead of serving the government.

¶5. GRA officials agreed that price stabilization is the primary mission of the BNA. While a stable exchange rate had already helped Angola achieve economic expansion, they must remain on guard lest a return to high inflation jeopardize those gains. Robert Corker of the IMF agreed that reducing the inflation rate had brought the economy much needed stability, but argued that now Angola needed to let the open market set its exchange rate. BNA Deputy Governor Rui Miguens, insisted however, that as long as the Bank's main goal remains price stabilization, it must develop usable policy instruments, like the interest rate, in order to increase its own effectiveness.

The Bank of Ghana in the Driver's Seat

¶6. (SBU) Mahamudu Bawumia, deputy governor of the Bank of Ghana

(BOG) described his bank's success in its inflation targeting operations. The BOG started its campaign with enhanced power, a recapitalization, a new banking law and a budget oversight role with the government. Participants compared central bank techniques during a lively debate highlighting the Ugandan and Ghananian central banks as models.

Developing the "Angolan Model"

¶7. (SBU) BNA officials' comments betrayed their sense of operating under certain constraints and without the full set of policy instruments available to most central bankers. The Bank of Ghana presentation, particularly, illustrated to the Angolans the importance of a central bank with full use of its powers. Afterwards, one participant overheard Rui Miguens tell a colleague, "We must go to Ghana." Angola and the BNA have a long road ahead of them before changes can be realized because of legal prohibitions limiting the effectiveness of available policy tools, such as a maximum maturity on BNA paper of 364 days, and still institutions - no interbank lending put other limits on the BNA. Nonetheless, Robert Corker, for example, noted that Angolan officials are asking more and more detailed questions at each successive meeting as they attempt to develop the Angolan model.

¶8. (SBU) Members of the BNA expressed their gratitude to Embassy Luanda for organizing the workshop and commended the contributions of our speakers. They especially noted the value added by the USG speakers in increasing the BNA's understanding of tools available to tackle monetary policy problems.
¶9. (SBU) Comment. This conference is significant because of the opening it provides for the USG to directly influence the development of transparent economic policies in Angola. The BNA came to the USG seeking assistance, and USAID ably responded by bringing together a world-class discussion group. Post recommends that Washington agencies follow-up on this opening to enhance our efforts of bringing good governance to Angola through the provision of a Department of Treasury Resident Advisor for the BNA. End Comment.
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